

CITY OF KANAWHA

INDEPENDENT AUDITOR'S REPORT  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2021

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CITY OF KANAWHA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gloria Sobek	Mayor	Jan 2024
Judy Vander Ploeg	Council Member	Jan 2022
Shirley Baker	Council Member	Jan 2022
Jeremy Purvis	Council Member	Jan 2022
Mathieu Lemay	Council Member	Jan 2024
Ray Bassett	Council Member	Jan 2024
Sharon Grimm	City Clerk	July 2021
Earl Hill	Attorney	July 2021

# Fort & Schlegel C.P.A., P.C.

## CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

### Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council:

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Kanawha, Iowa, as of and for the year ended June 30, 2021, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

800 1st Ave. S  
Fort Dodge, IA  
515.955.5560

3131 Main St.  
Emmetsburg, IA  
712.852.4464

109 2nd St. NE  
Mason City, IA  
641.423.7155

516 N. Water St.  
Goldfield, IA  
515.825.3339

4 Main Ave. S  
Britt, IA  
641.843.3729



## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Kanawha as of June 30, 2021, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

## Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

## Other Matters

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Kanawha's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2020 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 23 through 27, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

## Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 11, 2021 on our consideration of City of Kanawha's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Kanawha's internal control over financial reporting and compliance.

October 11, 2021

  
Fort & Schlegel C.P.A., P.C.  
Britt, Iowa

## BASIC FINANCIAL STATEMENTS

Cash Basis Statement of Activities and Net Position  
As of and for the year ended June 30, 2021

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
		Operating Grants, Contributions and Restricted			Business	
	Disbursements	Charges for Service	Interest	Governmental Activities	Type Activities	Total
<b>Functions / Programs:</b>						
Governmental activities:						
Public safety	\$ 174,731		26,810	(147,921)		(147,921)
Public works	116,597		97,580	(19,017)		(19,017)
Culture and recreation	82,130		18,604	(63,526)		(63,526)
Community and economic development	27,963			(27,963)		(27,963)
General government	111,457			(111,457)		(111,457)
Debt service	80,447			(80,447)		(80,447)
Capital projects	347,366			(347,366)		(347,366)
Total governmental activities	940,691		142,994	(797,697)		(797,697)
Business type activities:						
Water	176,548	129,146			(47,402)	(47,402)
Sewer	71,580	69,172			(2,408)	(2,408)
Stormwater	1,876	15,293			13,417	13,417
Total business type activities	250,004	213,611			(36,393)	(36,393)
Total	\$ 1,190,695	213,611	142,994	(797,697)	(36,393)	(834,090)
<b>General Receipts and Transfers:</b>						
Property tax levied for:						
General purposes				\$ 194,445		194,445
Employee benefits and insurance				44,071		44,071
Debt service				49,199		49,199
Local option sales tax				91,326		91,326
Commercial/industrial tax replacement				11,223		11,223
Unrestricted interest on investments				1,510		1,510
Miscellaneous				10,618		10,618
Proceeds from debt				400,000		400,000
Sale of capital asset				3,001		3,001
Total general receipts and transfers				805,393		805,393
Change in cash basis net position				7,696	(36,393)	(28,697)
Cash basis net position beginning of year				518,735	567,330	1,086,065
Cash basis net position end of year				\$ 526,431	530,937	1,057,368
<b>Cash Basis Net Position</b>						
Restricted:						
Expendable:						
Streets				\$ 70,330		70,330
Capital projects				52,634		52,634
Debt service				546		546
Other purposes				167,298		167,298
Unrestricted				235,623	530,937	766,560
Total cash basis net position				\$ 526,431	530,937	1,057,368

See notes to financial statements.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2021

	Special Revenue						Total
	General	Road Use Tax	Local Option	Employee Benefits	Debt Service	Capital Projects	
Receipts:							
Property tax	\$ 194,445			44,071	49,199		287,715
Other city tax			91,326				91,326
Licenses and permits	505						505
Use of money and property	1,560						1,560
Intergovernmental	53,033	97,580		1,712	1,892		154,217
Miscellaneous	10,063						10,063
Total receipts	259,606	97,580	91,326	45,783	51,091		545,386
Disbursements:							
Operating:							
Public safety	149,273			25,458			174,731
Public works	35,122	81,431		44			116,597
Culture and recreation	79,087			3,043			82,130
Community and economic development	1,630		26,333				27,963
General government	90,613			20,844			111,457
Debt service					80,447		80,447
Capital Projects						347,366	347,366
Total disbursements	355,725	81,431	26,333	49,389	80,447	347,366	940,691
Excess (deficiency) of receipts over (under) disbursements	(96,119)	16,149	64,993	(3,606)	(29,356)	(347,366)	(395,305)
Other financing sources (uses):							
Sale of capital assets	3,001						3,001
Proceeds from debt						400,000	400,000
Transfers in					31,272		31,272
Transfers out	(31,272)						(31,272)
Total other financing sources (uses)	(28,271)				31,272	400,000	403,001
Change in cash balances	(124,390)	16,149	64,993	(3,606)	1,916	52,634	7,696
Cash balances beginning of year	360,013	54,181	81,634	24,277	(1,370)		518,735
Cash balances end of year	\$ 235,623	70,330	146,627	20,671	546	52,634	526,431
Cash Basis Fund Balances							
Restricted for:							
Debt service					\$ 546		546
Streets		70,330					70,330
Capital projects						52,634	52,634
Other purposes			146,627	20,671			167,298
Unassigned	\$ 235,623						235,623
Total cash basis fund balances	\$ 235,623	70,330	146,627	20,671	546	52,634	526,431

See notes to financial statements.



## City of Kanawha

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2021

	Enterprise Funds			
	Water	Sewer Rental	Storm Water	Total
Operating receipts:				
Charges for service	\$ 129,146	69,172	15,293	213,611
Total operating receipts	129,146	69,172	15,293	213,611
Operating disbursements:				
Business type activities	176,548	71,580	1,876	250,004
Total operating disbursements	176,548	71,580	1,876	250,004
Change in cash balances	(47,402)	(2,408)	13,417	(36,393)
Cash balance beginning of year	360,762	180,676	25,892	567,330
Cash balances end of year	\$ 313,360	178,268	39,309	530,937
<b>Cash Basis Fund Balances</b>				
Unrestricted	\$ 313,360	178,268	39,309	530,937
Total cash basis fund balances	\$ 313,360	178,268	39,309	530,937

See notes to financial statements.

# CITY OF KANAWHA

## Notes to Financial Statements

June 30, 2021

### (1) Summary of Significant Accounting Policies

The City of Kanawha is a political subdivision of the State of Iowa located in Hancock County. It was first incorporated in 1899 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water, sewer and storm water utilities for its citizens.

#### A. Reporting Entity

For financial reporting purposes, City of Kanawha has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

#### Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Hancock County Assessor's Conference Board, Hancock County Development Commission, Community Fire Board and Library Board.

#### B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental receipts, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories:

# CITY OF KANAWHA

## Notes to Financial Statements

June 30, 2021

*Nonexpendable restricted net position* is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City.

*Expendable restricted net position* results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City has elected to report all governmental and proprietary funds as major funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Fund is used to account for local option tax receipts and disbursements.

The Employee Benefits Fund is used to account for property tax collected and payment of employee benefits.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.



# CITY OF KANAWHA

## Notes to Financial Statements

June 30, 2021

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities with the exception of those financed through Enterprise Funds.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, Storm Water Fund accounts for the operation and maintenance of the City's storm water system.

### C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

### D. Property Taxes and Governmental Cash Basis Fund Balances

The following accounting policies are followed in preparing the financial statements:



# CITY OF KANAWHA

## Notes to Financial Statements

June 30, 2021

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1 ½ % per month penalty for delinquent payments; is based on January 1, 2019 assessed property valuations; is for the tax accrual period July 1, 2020 through June 30, 2021 and reflects tax asking contained in the budget certified to the City Council in March 2020.

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2021, disbursements exceeded the amounts budgeted in the community and economic development function.

### (2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2021 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments during the year ended June 30, 2021.

Interest Rate Risk - The City's investment policy limits the investment of operating funds (fund expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF KANAWHA  
Notes to Financial Statements

June 30, 2021

**(3) Bonds and Notes Payable**

A summary of changes in bonds and notes payable for the year ended June 30, 2021 is as follows:

<u>Obligation</u>	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
General obligation notes:					
General corporate purpose	\$	400,000	27,000	373,000	27,000
Fire truck	75,000		15,000	60,000	15,000
General corporate purpose	287,000		41,000	246,000	41,000
Governmental activities total	<u>\$ 362,000</u>	<u>400,000</u>	<u>83,000</u>	<u>679,000</u>	<u>83,000</u>

General Obligation Bonds

A summary of the City's June 30, 2021 general obligation bonds payable is as follows:

<u>GENERAL OBLIGATION NOTES</u>					
<u>Year Ending June 30,</u>	<u>Fire Truck Issued July 10, 2015</u>		<u>General Corporate Purpose Issued September 30, 2016</u>		
	<u>Interest</u>		<u>Interest</u>		
	<u>Rates</u>	<u>Principal</u>	<u>Rates</u>	<u>Principal</u>	<u>Interest</u>
2022	0%	\$ 15,000	3.0%	\$ 41,000	7,380
2023	0	15,000	3.0	41,000	6,150
2024	0	15,000	3.0	41,000	4,920
2025	0	15,000	3.0	41,000	3,690
2026			3.0	41,000	2,460
2027			3.0	41,000	1,230
<b>Total</b>		<u><u>\$ 60,000</u></u>		<u><u>\$ 246,000</u></u>	<u><u>25,830</u></u>

# CITY OF KANAWHA

## Notes to Financial Statements

June 30, 2021

Year Ending June 30,	General Corporate Purpose Issued September 24, 2020			Total		
	Interest			Principal	Interest	Total
	Rates	Principal	Interest			
2022	3.25%	\$ 27,000	12,123	83,000	19,503	102,503
2023	3.25	27,000	11,245	83,000	17,395	100,395
2024	3.25	27,000	10,367	83,000	15,287	98,287
2025	3.25	27,000	9,490	83,000	13,180	96,180
2026	3.25	27,000	8,613	68,000	11,073	79,073
2027-2031	3.25	134,000	29,900	175,000	31,130	206,130
2032-2035	3.25	104,000	8,450	104,000	8,450	112,450
<b>Total</b>		<b>\$ 373,000</b>	<b>90,188</b>	<b>679,000</b>	<b>116,018</b>	<b>795,018</b>

On July 10, 2015, the City issued \$150,000 of general obligation bonds with an interest rate of 0% per annum. The bonds were issued for the purchase of a fire truck. During the year ended June 30, 2021, the City paid \$15,000 of principal on the bonds.

On September 30, 2016, the City issued \$410,000 of general obligation bonds with an interest rate of 3.0% per annum. The bonds were issued for street repairs. During the year ended June 30, 2021, the City paid \$41,000 of principal and \$8,610 of interest on the bonds.

On September 24, 2020, the City issued \$400,000 of general obligation bonds with an interest rate of 3.25% per annum. The bonds were issued for street repairs. During the year ended June 30, 2021, the City paid \$27,000 of principal and \$8,904 of interest on the bonds.

### (4) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at P.O. Box 9117, Des Moines, Iowa 50306-9117 or at [www.ipers.org](http://www.ipers.org).

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.



## CITY OF KANAWHA

### Notes to Financial Statements

June 30, 2021

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012, will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55 and may retire any time after reaching 50 with 22 or more years of covered employment. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.



# CITY OF KANAWHA

## Notes to Financial Statements

June 30, 2021

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2021, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll for a total rate of 15.73%. Protection occupation members contributed 6.41% of covered payroll and the City contributed 9.61% of covered payroll, for a total rate of 16.02%.

The City's contributions to IPERS for the year ended June 30, 2021 were \$16,683.

Net Pension Liability, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2021, the City reported a liability of \$108,779 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2020, the City's proportion was 0.0015485%, which was an increase of 0.000248% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021 the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$22,442, \$29,587 and \$15,330 respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

# CITY OF KANAWHA

## Notes to Financial Statements

June 30, 2021

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an economic assumption study dated March 24, 2017, and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2020 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0%	4.43%
International equity	17.5	5.15
Global smart beta equity	6.0	4.87
Core plus fixed income	28.0	(0.29)
Public credit	4.0	2.29
Cash	1.0	(0.78)
Private equity	11.0	6.54
Private real assets	7.5	4.48
Private credit	3.0	3.11
Total	100.0%	

**Discount Rate** - The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.0%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.0%) or 1% higher (8.0%) than the current rate.



# CITY OF KANAWHA

## Notes to Financial Statements

June 30, 2021

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
City's proportionate share of the net pension liability	\$209,231	\$108,779	\$24,587

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at [www.ipers.org](http://www.ipers.org).

### (5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug and dental benefits for employees. Group insurance benefits are established under Iowa Code Chapter 509A.13. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City for single coverage is \$1,080, and single dental coverage is \$42. For the year ended June 30, 2021, the City contributed \$47,149. At June 30, 2021, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits – Individuals who are employed by City of Kanawha and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. At June 30, 2021, the following employees were covered by the benefit terms:

Active employees	<u>3</u>
------------------	----------

### (6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. Sick leave and comp time hours are accumulated for subsequent use but are not paid upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation to employees at June 30, 2021, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount June 30, 2021</u>
Vacation	\$ <u>2,343</u>

This liability has been computed based on rates of pay in effect at June 30, 2021.

# CITY OF KANAWHA

## Notes to Financial Statements

June 30, 2021

### (7) Related Party Transactions

No transactions between the City and City officials occurred during the year ended June 30, 2021.

### (8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### (9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2021 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	\$ <u>31,272</u>
Total		\$ <u>31,272</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

### (10) Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

#### City Tax Abatements

The City provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapters 15A and 403 of the Code of Iowa. For these types of projects, the City enters into agreements with developers which require the City, after developers meet the terms of the agreements, to rebate a portion of the property tax paid by the developers, to pay the developers an economic development grant or to pay the developers a predetermined dollar amount. No other commitments were made by the City as part of these agreements.

For the year ended June 30, 2021, the City abated \$0 of property tax under the urban renewal and economic development projects.



# CITY OF KANAWHA

## Notes to Financial Statements

June 30, 2021

### **(11) COVID-19**

In March 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including that of City of Kanawha remains uncertain.

To date, the outbreak has not created a material disruption to the operations of City of Kanawha. However, the extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonably estimate the potential impact to City of Kanawha.

### **(12) Prospective Accounting Change**

Governmental Accounting Standards Board has issued Statement No. 87, Leases. This statement will be implemented for the fiscal year ending June 30, 2022. The revised requirements of this statement require reporting of certain potentially significant lease liabilities that are not currently reported.

## OTHER INFORMATION

City of Kanawha

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances –  
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2021

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts		Final to Total Variance
				Original	Final	
Receipts:						
Property tax	\$ 287,715		287,715	280,970	280,970	6,745
Other city tax	91,326		91,326	81,185	81,185	10,141
Licenses and permits	505		505	675	675	(170)
Use of money and property	1,560		1,560	1,300	1,300	260
Intergovernmental	154,217		154,217	139,110	139,110	15,107
Charges for services		213,611	213,611	224,700	224,700	(11,089)
Miscellaneous	10,063		10,063	7,915	7,915	2,148
Total receipts	545,386	213,611	758,997	735,855	735,855	23,142
Disbursements:						
Public safety	174,731		174,731	183,540	183,540	8,809
Public works	116,597		116,597	121,304	144,304	27,707
Culture and recreation	82,130		82,130	93,637	93,637	11,507
Community and economic development	27,963		27,963	8,000	8,000	(19,963)
General government	111,457		111,457	113,245	113,245	1,788
Debt service	80,447		80,447	49,610	81,259	812
Capital projects	347,366		347,366		400,000	52,634
Business type activities		250,004	250,004	406,098	452,700	202,696
Total disbursements	940,691	250,004	1,190,695	975,434	1,476,685	285,990
Excess (deficiency) of receipts over (under) disbursements	(395,305)	(36,393)	(431,698)	(239,579)	(740,830)	309,132
Other financing sources, net	403,001		403,001		400,000	3,001
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	7,696	(36,393)	(28,697)	(239,579)	(340,830)	312,133
Balances beginning of year	518,735	567,330	1,086,065	909,565	909,565	130,418
Balances end of year	\$ 526,431	530,937	1,057,368	669,986	568,735	442,551

See accompanying independent auditor's report.

City of Kanawha

Notes to Other Information – Budgetary Reporting

June 30, 2021

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$501,251. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2021, disbursements exceeded the amounts budgeted in the community and economic development function.



City of Kanawha  
Schedule of the City's Proportionate Share of Net Pension Liability

Iowa Public Employees' Retirement System  
For the Last Seven Years\*

Other Information

	2021	2020	2019	2018	2017	2016	2015
City's proportion of the net pension liability	0.0015485%	0.0013003%	0.0013865%	0.0014019%	0.0014149%	0.0013054%	0.0013337%
City's proportionate share of the net pension liability	\$ 108,779	75,295	87,740	93,383	89,046	64,493	52,893
City's covered payroll	\$ 168,183	173,296	152,696	146,329	144,450	132,592	123,782
City's proportionate share of the net pension liability as a percentage of its covered payroll	64.68%	43.45%	57.46%	63.82%	61.64%	48.64%	42.73%
IPERS' net position as a percentage of the total pension liability	82.90%	85.45%	83.62%	82.21%	81.82%	85.19%	87.61%

\* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Kanawha  
Schedule of City Contributions

Iowa Public Employees' Retirement System  
Last 10 Fiscal Years

Other Information

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Statutorily required contribution	\$ 16,683	16,112	16,875	14,074	13,470	13,319	12,281	11,369	13,015	12,259
Contributions in relation to the statutorily required contribution	(16,683)	(16,112)	(16,875)	(14,074)	(13,470)	(13,319)	(12,281)	(11,369)	(13,015)	(12,259)
Contribution deficiency (excess)										
City's covered payroll	\$ 175,827	168,183	173,296	152,696	146,329	144,450	132,592	123,782	140,816	140,023
Contributions as a percentage of covered payroll	9.49%	9.58%	9.74%	9.22%	9.21%	9.22%	9.26%	9.18%	9.24%	8.75%

See accompanying independent auditor's report.

City of Kanawha  
Notes to Other Information – Pension Liability  
Year ended June 30, 2021

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.



## SUPPLEMENTARY INFORMATION

CITY OF KANAWHA

Schedule of Receipts By Source and Disbursements By Function  
All Governmental Funds

For the Last Ten Years

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Receipts:										
Property tax	\$287,715	350,377	331,486	301,825	282,998	284,706	294,431	294,720	289,911	313,092
Other city tax	91,326	88,916	75,337	61,089	61,438	48,364	70,564	55,418	56,150	55,000
Licenses and permits	505	675	500	800	763	325	275	665	665	740
Use of money and property	1,560	2,434	2,034	2,714	1,885	1,524	1,506	1,359	1,348	1,531
Intergovernmental	154,217	157,003	145,944	142,678	140,428	155,585	115,409	110,862	107,689	104,052
Miscellaneous	10,063	22,340	22,433	7,141	20,876	33,599	35,168	6,558	28,617	8,289
Total	<u>\$545,386</u>	<u>621,745</u>	<u>577,734</u>	<u>516,247</u>	<u>508,388</u>	<u>524,103</u>	<u>517,353</u>	<u>469,582</u>	<u>484,380</u>	<u>482,704</u>
Disbursements:										
Operating:										
Public safety	\$174,731	162,842	164,680	172,401	138,042	331,521	120,207	122,847	146,040	150,004
Public works	116,597	105,646	123,884	150,682	358,963	139,068	190,927	140,071	134,056	125,169
Culture and recreation	82,130	83,222	68,826	81,567	120,869	85,488	78,893	71,784	63,493	53,432
Community and economic development	27,963	10,642	3,933	1,000	800	1,000	815	1,669	1,528	1,597
General government	111,457	107,471	87,953	104,399	147,557	91,530	93,987	102,513	96,413	103,750
Debt service	80,447	124,135	128,545	127,585	76,983	74,457	71,464	73,663	70,663	93,613
Capital projects	347,366									
Total	<u>\$940,691</u>	<u>593,958</u>	<u>577,821</u>	<u>637,634</u>	<u>843,214</u>	<u>723,064</u>	<u>556,293</u>	<u>512,547</u>	<u>512,193</u>	<u>527,565</u>

See accompanying independent auditor's report.

# Fort & Schlegel C.P.A., P.C.

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Kanawha, Iowa, as of and for the year ended June 30, 2021, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated October 11, 2021. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Kanawha's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Kanawha's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Kanawha's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and, therefore, significant deficiencies or material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Kanawha's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings as items I-A-21 and I-B-21 to be material weaknesses.

800 1st Ave. S  
Fort Dodge, IA  
515.955.5560

3131 Main St.  
Emmetsburg, IA  
712.852.4464

109 2nd St. NE  
Mason City, IA  
641.423.7155

516 N. Water St.  
Goldfield, IA  
515.825.3339

4 Main Ave. S  
Britt, IA  
641.843.3729



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Kanawha's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2021 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

## City of Kanawha's Responses to Findings

City of Kanawha's responses to findings identified in our audit are described in the accompanying Schedule of Findings. City of Kanawha's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Kanawha during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

October 11, 2021

  
Fort & Schlegel C.P.A., P.C.  
Britt, Iowa

City of Kanawha  
Schedule of Findings  
Year Ended June 30, 2021

**Part I: Findings Related to the Financial Statements:**

**Internal Control Deficiencies:**

**I-A-21 Segregation of Duties**

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition – Generally, one individual in the office identified has control over the following areas for which no compensating controls exist:

- (1) Accounting system – performance of all accounting functions and having custody of assets.
- (2) Cash – initiating cash receipt and disbursement transactions, handling and recording cash and reconciling bank accounts.
- (3) Long-term debt – maintaining long-term debt records and handling and recording cash and reviewing compensated absence records.
- (4) Receipts – opening mail, collecting, depositing, journalizing, recording and reconciling.
- (5) Disbursements – purchasing, disbursement preparation, recording check writing, signing and reconciling.
- (6) Payroll – entering rates into the system, preparing, reconciling, recording and distributing.
- (7) Journal entries are not reviewed and approved by an independent person.

Cause – The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.



City of Kanawha

Schedule of Findings

Year Ended June 30, 2021

**Part I: Findings Related to the Financial Statements (continued):**

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Reviews of journal entries and reconciliations should be performed by independent persons and should be evidenced by the signature or initials of the reviewer and the date of the review.

Response – The City will investigate available options.

Conclusion - Response accepted.

**I-B-21 Computer Systems**

Criteria – Properly designed policies and procedures pertaining to control activities over the City's computer systems and implementation of the policies and procedures help provide reasonable assurance financial information is safeguarded and reliable, regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

Condition - The City does not have written policies for:

- Requiring a time out and/or log off function which will protect a terminal if left unattended.
- Requiring logging off and/or the use of screen saver passwords for unattended terminals.
- Prohibiting the sharing of passwords.
- Requiring passwords/log-ins to be periodically changed every 60 to 90 days.
- Requiring passwords to be 8 characters in length or longer.
- Prohibiting the use of the same password and tracking password history.
- Prohibiting access to the computer system after three failed log-in attempts.

Also, the City does not have a written disaster recovery plan.

Cause – Management has not required written policies for the above computer-based controls.



City of Kanawha  
Schedule of Findings  
Year Ended June 30, 2021

**Part I: Findings Related to the Financial Statements (continued):**

Effect – Lack of written policies for computer systems could result in a loss of data or compromised data, resulting in unreliable financial information. The failure to have a formal disaster recovery plan could result in the City's inability to function in the event of a disaster or continue City business without interruption.

Recommendation – The City should implement procedures and develop written policies addressing the above items in order to improve the City's control over its computer systems. A written disaster recovery plan should also be developed.

Response – Management will work on updating these policies.

Conclusion - Response accepted.

**Instances of Non – Compliance:**

No matters were noted.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2021

**Part II: Other Findings Related to Required Statutory Reporting:**

II-A-21 Certified Budget – Disbursements during the year ended June 30, 2021 exceeded the amounts budgeted in the community and economic development function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

II-B-21 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in as Attorney General’s opinion dated April 25, 1979.

II-C-21 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-21 Business Transactions – No transactions between City and City officials were noted.

II-E-21 Restricted Donor Activity – No transactions were noted between the City, City officials, City employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

II-F-21 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-G-21 Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not.

II-H-21 Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-I-21 Questionable Donations – During the fiscal year ended June 30, 2021, the City donated \$7,000 to the Kanawha Pool and \$100 to ABC Club.

City of Kanawha

Schedule of Findings

Year Ended June 30, 2021

**Part II: Other Findings Related to Required Statutory Reporting (continued):**

The Constitution of the State of Iowa prohibits governmental bodies from making a gift to private, non-profit corporations. Article III, Section 31 of the Constitution of the State of Iowa states "...no public money or property shall be appropriated for local or private purposes, unless such appropriation, compensation or claim be allowed by two-thirds of the members elected to each branch of the General Assembly."

At least six official Iowa Attorney General Opinions since 1972 have consistently concluded that a governmental body may not donate public funds to a private entity, even if the entity is established for charitable educational purposes and performs work which the government count perform directly. The Opinions further state, "Even if the function of a private non-profit corporation fits within the scope of activities generally recognized as serving a public purpose, a critical question exists regarding whether funds or property transferred to a private entity will indeed be used for those public purposes."

"Political subdivisions and municipalities, including cities, counties, schools and townships are municipal-governmental-entities. As governmental entities they are governed by elected bodies, are directly responsible to the public as a whole, and are subject to the limitations imposed on them by the state. Although a private organization may be formed to provide and support 'public' services which are the same or similar to the services provided by government, the private organizations are not subjected to the same degree of public accountability and oversight as governmental entities."

Recommendation – We are not aware of any statutory authority for the City to donate public funds to private non-profit organizations. The City should immediately cease making future such donations.

Response – The Mayor and City Clerk have discussed approving resolutions regarding the disbursement of both entities with documentation showing the need in our LMI (low to moderate income) community that supporting these non-profit organizations would meet the public purpose as our LMI is below 50%.

Conclusion – Response acknowledged. A low LMI in the City does not negate the requirements of the Iowa Constitution which prohibits donations to private organizations. The City should cease making future donations.